



# Earned Income Tax Credit

## EITC Tips and Tools

# Due Diligence Helps Reduce EITC Error Rate

- Know the Law
- Ask the right questions
- Get all the facts
- Document everything

Software is not a substitute for knowing the law!

Due Diligence - Know the law. Ask the right questions. Get all the facts.



# Three Common Errors Account for the Majority of EITC Errors

1. Claiming a child who does not meet the age, relationship or residency requirement
2. Filing as single or head of household when married
3. Over or under reporting income



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# Here is What's New for the 2009 Filing Season

- Changes to Uniform Definition of a child
- Addition of third child
- Increased income threshold for married couples and adjustments for inflation



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# Know the Law-- EITC Eligibility Requirements for All Taxpayers

- Must have earned income
- Must have valid Social Security Number no ATINs or ITINs
- Not file Married Filing Separate
- Not file Form 2555 or 2555-EZ
- Meet the investment income level
- Not be the qualifying child of another person
- Be a U.S. Citizen or Resident Alien

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# Taxpayers with a Child - and Now Up to Three

- To qualify a worker for EITC each child must pass all of the following tests:
  - Relationship
  - Age
  - Residency
  - Joint Return



# What You Should Know About Relationships

- Son, daughter, stepchild, foster child
- Brother, sister, half brother, half sister, step brother, step sister
- A descendant of any of the above



# Caution: New Rules About Child's Age Apply

- The Child must be younger than the taxpayer
  - Under age 19 or
  - Under age 24 and a full time student

Or

- Any age and defined as permanently and totally disabled





# Residency Rules Stay the Same

- Lived with the taxpayer for more than half the year in the United States



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# Child's Filing Requirements Can be Confusing

- Not have filed a joint return
- Unless the qualifying child filing the joint return had no filing requirement



# Only One Person Can Claim the Same Child

- If not a parent of the child, the AGI must be higher than any of the parents
- If the child qualifies more than one person for EITC and the parent AGI rule doesn't apply, they choose
- If more than one person claims the same child, IRS applies the tie-breaker rules





# Don't Overlook Workers Without Qualifying Children – Basic Rules

- Must have lived in the United States for more than half the year
- Must be at least 25 but younger than 65
- Must not qualify as a dependent of another person

# Separated but Married

Many EITC errors occur because the worker claims Head of Household or Single but is Married

A client says she is married but separated...

What questions should you ask?



# Separated but Married

- When did you separate?
- Did you and your husband live together in the same home at any time during the last six months of the tax year?
- If you lived apart, did you provide over half of the support for the household where you lived? (List the primary items that make up support of the household)
- Did your child or children live with you in your separate household? If so, how long did they live with you?

**Due Diligence - Know the law. Ask the right questions. Get all the facts.**



# Recap

- As a preparer, you get the facts and decide the correct filing status—ask the right questions
- Assume your clients don't know the tax definition for Head of Household and other filing statuses
- Phrase questions in non-technical terms



# Scenario One– Take 1

- Joan:

- Has income from wages of \$13,500
- Wants to claim Susie for EITC
- Asks you to prepare her return



- Susie:

- Is 6 years old
- Lived with her father and her Aunt Joan in the same house for the full year in the United States

What questions should you ask?



# Scenario One– Take 1 (cont)

- Do you know how much income Susie's father earned last year from wages, pensions?
- Do you know if Susie's father is claiming her as a qualifying child for EITC?
- Is Susie's father married?
- Where is Susie's mother?



# Is Susie Joan's Qualifying Child?

- You find out:
  - Father's only income was from a part time job, just over \$5,000
  - No, he's not claiming the EITC
  - Susie's mother died in a car accident over a year ago





# Is Susie Joan's Qualifying Child?



- Susie meets the age, relationship and residency requirements to be a qualifying child for both Joan and her father, since Joan's AGI is higher than the father's, Joan and the father can choose who claims the credit

# Is Susie Joan's Qualifying Child - Take 2

- You find out:
  - Father earned just over \$5,000 in wages
  - Father received interest of \$27,000
  - No, he's not claiming the EITC
  - Susie's mother died in a car accident over a year ago



# Is Susie Joan's Qualifying Child? - Take 2



- Susie meets the age, relationship and residency requirements to be a qualifying child of both Joan and her father, but the TY2009 tax law changes require that if any person other a parent claims a qualifying child, that individual must have an AGI higher than any parent of the child.



# Recap

- New rule for qualifying child—relative other than parent has to have higher AGI than the child's parents

# Scenario 2



- David:
  - Earned \$9,000 and had no other income
  - Wants to claim his son Charlie for EITC
  - Asks you to prepare his return



- Charlie:
  - Is 35 years old
  - David says he is disabled
  - Lived with Charlie in the United States for the full year

## What questions would you ask David?



# What Questions Would You Ask David?

- Does Charlie work and earn income?
- Is Charlie able to hold a job?
- Has a doctor determined Charlie is disabled?
- How long will Charlie be disabled?



# Is Charlie David's Qualifying Child?

- You find out:
  - Charlie was severely disabled in an accident last year but is expected to fully recover



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# Is Charlie David's Qualifying Child?



- Because Charlie's disability is not expected to last longer than a year, he is not a qualifying child for David
- But,
  - You need to ask one more question



# Is David Eligible for EITC?

- How old are you David?
  - If David is younger than 65, he qualifies for the EITC



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# Recap

- Don't forget the EITC for workers without children
- Be aware of the definition of disabled for tax purposes

Your child is permanently and totally disabled if both of the following apply.

1. He or she cannot engage in any substantial gainful activity because of a physical or mental condition.
2. A doctor determines the condition has lasted or can be expected to last continuously for at least a year or can lead to death.





# Tools for Helping You File Accurate EITC Claims

EITC Central—[www.eitc.irs.gov](http://www.eitc.irs.gov)  
– Your home for all things EITC



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# On Site Resources

- Exhibit Hall booth
- E-IRS Room Due Diligence Training Module demo
- Due Diligence seminar
- Tax Forum Booklet